



November 10, 2006

State of Alaska
Alaska Retirement Management Board
Department of Administration
Division of Retirement and Benefits
P.O. Box 110203
Juneau, AK 99811-0203

Dear Members of the Board:

Actuarial Certification

The annual actuarial valuation required for the State of Alaska Teachers' Retirement System has been prepared as of June 30, 2005 by Buck Consultants. The purposes of the report include:

- (1) a presentation of the valuation results of the Plan as of June 30, 2005;
- (2) a review of experience under the Plan for the year ended June 30, 2005;
- (3) a determination of the appropriate contribution rate for all employers in the System which will be applied for the fiscal year ending June 30, 2008; and
- (4) the provision of reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The following schedules that we have prepared are included in the Actuarial Section:

- (1) Summary of actuarial assumptions and methods
- (2) Schedule of active member valuation data
- (3) Schedule of benefit recipients added to and removed from rolls
- (4) Solvency test
- (5) Analysis of financial experience

Tabor Center, 1200 17th Street, Suite 1200 • Denver, CO 80202
720.359.7700 • 720.359.7701 (fax)

Alaska Retirement Management Board
November 10, 2006
Page 2

In preparing the 2005 actuarial valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the Division of Retirement and Benefits and financial information provided in the financial statements audited by KPMG LLP, to determine a sound value for the System liability. This data has not been audited, but it has been reviewed and found to be consistent, both internally and with prior years' data. The actuarial assumptions are based on the results of an experience study presented to the Board in October 2000 and adopted in December 2000. Actuarial methods, medical cost trend, and assumed blended medical premiums were reviewed and revised in 2003 and 2004. For the 2005 actuarial valuation, additional changes to the assumptions used to value medical benefit liabilities and corrections to differences between plan provisions and certain calculations included in the prior valuation while incorporated.

The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY06 and a fixed 25-year level percentage of payroll amortization of the initial unfunded accrued liability and subsequent gains/losses. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. Over time, the contribution rate is expected to remain relatively constant as a percentage of payroll. The ratio of valuation assets to liabilities decreased from 62.8% to 60.9% during the year. The 2005 actuarial valuation provides an analysis of the factors that led to the decrease. The Actuarial Section and the 2005 actuarial valuation report also provide a history of the funding ratio of the System.

The actuarial assumptions, when applied in combination, fairly represent past and anticipated future experience in the System. Future contribution requirements may differ from those determined in the valuation because of:

- (1) differences between actual experience and anticipated experience based on the assumptions;
- (2) changes in actuarial assumptions or methods;
- (3) changes in statutory provisions; or
- (4) differences between the contribution rates determined by the valuation and those adopted by the Board.

The undersigned are members of the American Academy of Actuaries and the Society of Actuaries, are fully qualified to provide actuarial services to the State of Alaska. We believe that the assumptions and methods used for funding purposes and for the disclosures presented satisfy the parameter requirements set forth in the Government Accounting Standards Board (GASB) Statement Nos. 25 and 27.

Alaska Retirement Management Board
November 10, 2006
Page 3

We believe that the 2005 actuarial valuation conforms with the requirements of the Alaska statutes, and where applicable, other federal and accounting laws, regulations and rules, as well as generally accepted actuarial principles and practices.

Sincerely,



David H. Sliskinsky, A.S.A., E.A.
Principal, Consulting Actuary



Michelle Reding DeLange, F.S.A., E.A.
Director, Consulting Actuary

The undersigned actuary is responsible for all assumptions related to the average annual per capita health claims cost and the health care cost trend rates, and hereby affirms his qualification to render opinions in such matters, in accordance with the qualification standards of the American Academy of Actuaries.



Leonard C. "Trey" Sarsfield, A.S.A., M.A.A.A.
Senior Consultant, Health & Welfare

Teachers' Retirement System Summary of Actuarial Assumptions, Methods and Procedures

The demographic and non-health economic assumptions used in the June 30, 2005 valuation are described below. Unless noted otherwise, these assumptions were recommended by Mercer Human Resource Consulting at the Fall 2000 TRS Board Meeting and adopted by the Board in December 2000. These assumptions were the result of an experience study performed in the Fall of 2000. For this valuation, Buck is recommending changes to the assumptions and methods used to value medical benefit liabilities. The funding method used in this valuation was adopted June 30, 1985 and last reviewed by the Board in January 2003. The asset smoothing method used to determine valuation assets was changed effective June 30, 2002.

Benefits valued are those delineated in Alaska State statutes as of the valuation date. Changes in State statutes effective after the valuation date are not taken into consideration in setting the assumptions and methods.

Valuation of Liabilities

A. Actuarial Method - Projected Unit Credit

Liabilities and contributions shown in the report are computed using the Projected Unit Credit method of funding. The initial unfunded accrued liability and future gains/losses are amortized over a 25 year fixed period as a level percentage of pay based on a 4.25% payroll growth assumption. The payroll growth assumption will be reviewed next year to reflect plan changes that become effective after the valuation date. However, in keeping with GASB requirements, the net amortization period for all gains and losses will not exceed 30 years.

The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, each participant's total pension projected to retirement with salary scale is broken down into units, each associated with a year of past or future service. The principle underlying the method is that each unit is funded in the year for which it is credited. Typically, when the method is introduced there will be an initial liability for benefits credited for service prior to the date, and to the extent that this liability is not covered by assets of the plan there is an unfunded liability to be funded over a chosen period in accordance with an amortization schedule.

An Accrued Liability is calculated at the valuation date as the present value of benefits credited with respect to service to that date.

The Unfunded Liability at the valuation date is the excess of the accrued liability over the assets of the plan. The annual payment to be made over a stipulated number of years to amortize the unfunded liability is the Past Service Cost.

The Normal Cost is the present value of those benefits which are expected to be credited with respect to service during the year beginning on the valuation date.

Under this method, differences between the actual experience and that assumed in the determination of costs and liabilities will emerge as adjustments in the unfunded liability, subject to amortization.

<p style="text-align: center;">Teachers' Retirement System Summary of Actuarial Assumptions, Methods and Procedures</p>
--

B. Actuarial Assumptions

- | | |
|--|---|
| 1. Investment Return/
Discount Rate | 8.25% per year, compounded annually, net of expenses. |
| 2. Salary Scale | Inflation - 3.5% per year
Merit (first 5 years of employment) - 1.5% per year
Productivity - 0.5% per year |
| 3. Total Inflation | Total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.5% annually. |
| 4. Mortality | 1994 Group Annuity Mortality Basic Table for males and females, 1994 Base Year. All deaths are assumed to result from non-occupational causes. |
| 5. Total Turnover | Select and ultimate rates based upon the 1997-99 actual withdrawal experience. (See Table 1). |
| 6. Disability | Incidence rates based upon the 1991-95 actual experience, in accordance with Table 2. Post-disability mortality in accordance with the 1979 Pension Benefit Guaranty Corporation Disability Mortality Table to reflect mortality of those receiving disability benefits under Social Security. All disabilities are assumed to result from non-occupational causes. |
| 7. Retirement | Retirement rates based upon the 1997-99 actual experience in accordance with Table 3. Deferred vested members are assumed to retire at their earliest retirement date. |
| 8. Spouse's Age | Wives are assumed to be four years younger than husbands. |
| 9. Dependent Children | Benefits to dependent children have been valued assuming members who are married have one dependent child. |
| 10. Contribution Refunds | 100% of those terminating after age 35 who are vested will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded. |
| 11. COLA | Of those benefit recipients who are eligible for the COLA, 65% are assumed to remain in Alaska and receive the COLA. |
| 12. Sick Leave | 4.7 days of unused sick leave for each year of service are assumed to be available to be credited once the member is retired. |

Teachers' Retirement System Summary of Actuarial Assumptions, Methods and Procedures

13. Post-Retirement Pension Adjustment 50% and 75% of assumed inflation, or 1.75% and 2.625% respectively, is valued for the annual automatic Post-Retirement Pension Adjustment (PRPA) as specified in the statute.
14. Expenses Expenses are covered in the investment return assumption.
15. Part-Time Status Part-time employees are assumed to earn 0.550 years of credited service per year.
16. Per Capita Claims Cost Sample claims cost rates for FY06 medical benefits are shown below:

	<u>Medical</u>		<u>Rx</u>	
	<u>Total</u>	<u>Medicare</u>	<u>Total</u>	<u>Medicare</u>
Age 65	\$8,328	\$6,821	\$1,936	\$414*

*Represents FY06 value of Medicare Part D subsidy. Rate is not applied until January 1, FY06 as subsidy is not available until then.

17. Health Cost Trend	<u>Medical</u>	<u>Rx</u>
FY06	9.5%	14%
FY07	9.0%	13%
FY08	8.5%	12%
FY09	8.0%	11%
FY10	7.5%	10%
FY11	7.0%	9%
FY12	6.5%	8%
FY13	6.0%	7%
FY14	5.5%	6%
FY15	5.0%	5%
FY16 and later	5.0%	5%

Note, graded Health Cost Trend Rates were reinitialized for the June 30, 2005 valuation such that FY05 trend used in the June 30, 2004 valuation (9.5% for Medical and 14% for Rx) is assumed for FY06 in the current valuation. FY06 trend used in the prior valuation (9.0% for Medical and 13% for Rx) is assumed for FY07 in the current valuation, and so on. This conservative adjustment addresses concerns regarding claim costs and past trend rates derived from analysis of aggregate claim data versus potential results obtained if data disaggregated into pre-Medicare, Medicare A & B and Medicare B only categories were available.

18. Aging Factors	<u>Age</u>	<u>Medical</u>	<u>Rx</u>
	00-44	2.0%	4.5%
	45-54	2.5%	3.5%
	55-64	3.5%	3.0%
	65-74	4.0%	1.5%
	75-84	1.5%	0.5%
	85+	0.5%	0.0%

Teachers' Retirement System Summary of Actuarial Assumptions, Methods and Procedures

19. Retired Member Contributions for Medical Benefits	Currently contributions are required for TRS members who are under age 60 and have less than 30 years of service. Eligible Tier 1 members are exempt from contribution requirements. An annual contribution of \$10,356 for FY06 is assumed to be paid for those required, equal to the annualized average of \$850 and \$876 per month for calendar 2005 and 2006, respectively.	
20. Trend Rate for Retired Member Contribution	FY06	6.9%
	FY07	10.2%
	FY08	9.6%
	FY09	8.9%
	FY10	8.3%
	FY11	7.6%
	FY12	7.0%
	FY13	6.3%
	FY14	5.7%
	FY15	5.0%
	FY16 and later	5.0%

Note, graded Trend Rates for Retired Member Medical Contributions were reinitialized for the June 30, 2005 valuation such that FY05 trend of 6.9% used in the June 30, 2004 valuation is assumed for FY06 in the current valuation. FY06 trend of 10.2% used in the prior valuation is assumed for FY07 in the current valuation, and so on. This conservative adjustment addresses concerns described above regarding aggregated claims data and also better reflects recent Retired Member Medical Contribution increases.

C. Valuation of Assets

Effective June 30, 2002, the asset valuation method recognizes 20% of the investment gain (loss) in each of the current and preceding four years. This method will be phased in over the next five years. All assets are valued at market value. Assets are taken directly from financial statements audited by KPMG LLP. Valuation assets are constrained to a range of 80% to 120% of the market value of assets.

D. Valuation of Medical Benefits

This section outlines the detailed methodology used to develop the initial per capita claims cost for the State of Alaska Teachers' Retirement System postemployment healthcare benefits.

The analysis is separated into two phases:

- Development of total projected claims cost; and
- Development of the distribution of per capita claims cost by age.

To determine total projected costs for the valuation period, an analysis of claims experience for the State of

<p style="text-align: center;">Teachers' Retirement System Summary of Actuarial Assumptions, Methods and Procedures</p>

Alaska PERS and TRS was completed based on information provided by its administrators. This analysis is presented on the following page, "Detailed Development of Claims Cost."

Paid claims for the period from June 2002 through May 2005 were tabulated and an average annual amount determined. Next, three adjustments were applied:

- A participation adjustment to account for differences in exposures between the experience period and the current census.
- A factor to trend historical claims from the midpoint of the experience period to the midpoint of the valuation period.
- An adjustment to restate paid claims on an incurred basis, assuming that claims are paid on average three months after the date incurred for medical and vision benefits.

To this, estimated administrative costs were added. The result is total projected costs for the period July 1, 2005 to June 30, 2006

Teachers' Retirement System Summary of Actuarial Assumptions, Methods and Procedures

Detailed Development of Claims Cost For the Period July 1, 2005 through June 30, 2006

	Medical	Rx
Paid Claims (6/02 – 5/03)	\$133,794,131	\$49,761,201
Paid Claims (6/03 – 5/04)	143,042,729	61,583,420
Paid Claims (6/04 – 5/05)	163,039,365	73,932,659
Estimated Annual Paid Claims	\$146,625,408	\$61,759,093
Population Adjustment ¹¹	1.0935	1.0803
Trend Adjustment (25 months) ¹²	1.2081	1.3139
Incurred Adjustment ¹²	1.0229	1.0000
Projected incurred claims	\$198,146,866	\$87,657,508
Administrative costs ¹³	9,685,363	0
Projected Plan Costs	\$207,832,229	\$87,657,508

¹¹ Adjusts for exposure differences between the current census and the experience period from which the claims were derived. To calculate an appropriate per capita claims cost, the number of employees used below includes all actives, not just those eligible for retiree healthcare benefits

Current census; retirees:	28,310	28,310
Average enrollment during experience period:	25,890	26,206

¹² Trend:	9.5%	14.0%
Months of Trend:	25.0	25.0
Incurred Adjustment:	3.0	0.0

¹³ Administrative Fees:	\$28.51	\$0.00
------------------------------------	---------	--------

Teachers' Retirement System **Summary of Actuarial Assumptions, Methods and Procedures**

Following the development of total projected costs, a distribution of per capita claims cost was developed. This was accomplished by allocating total projected costs to the population census used in the valuation. The allocation was done separately for each of prescription drugs and medical costs for the Medicare eligible and pre-Medicare populations. The allocation weights were developed using participant counts by age and assumed morbidity and aging factors. Results were tested for reasonableness based on historical trend and external benchmarks for costs paid by Medicare.

Below are the results of this analysis:

Distribution of Per Capita Claims Cost by Age **for the Period July 1, 2005 through June 30, 2006**

<u>Age</u>	<u>Medical</u>	<u>Prescription Drug</u>
45	\$4,612	\$ 1,021
50	5,218	1,213
55	5,904	1,441
60	7,012	1,670
65	1,507	1,936
70	1,833	2,086
75	2,231	2,247
80	2,403	2,304

Teachers' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

Table 1
Total Turnover Assumptions

Select Rates of Turnover During the First 8 Years of Employment		Ultimate Rates of Turnover After the First 8 Years of Employment	
<u>Year of Employment</u>	<u>Rate</u>	<u>Ages</u>	<u>Rate</u>
1	.10	20+	.04
2	.10		
3	.09		
4	.09		
5	.08		
6	.07		
7	.06		
8	.05		

Teachers' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

Table 2
Disability Rates
Annual Rates Per 1,000 Employees

Age	Rate
20	.28
21	.28
22	.29
23	.29
24	.30
25	.30
26	.30
27	.31
28	.32
29	.33
30	.34
31	.34
32	.35
33	.36
34	.37
35	.38
36	.40
37	.41
38	.43
39	.44
40	.46
41	.48
42	.51
43	.54
44	.59
45	.65
46	.70
47	.76
48	.83
49	.89
50	.96
51	1.04
52	1.14
53	1.27
54	1.42
55	1.60
56	1.84
57	2.14
58	2.44
59	2.88
60	3.37
61	3.90
62	4.52
63	5.22
64	5.96

Teachers' Retirement System
Summary of Actuarial Assumptions, Methods and Procedures

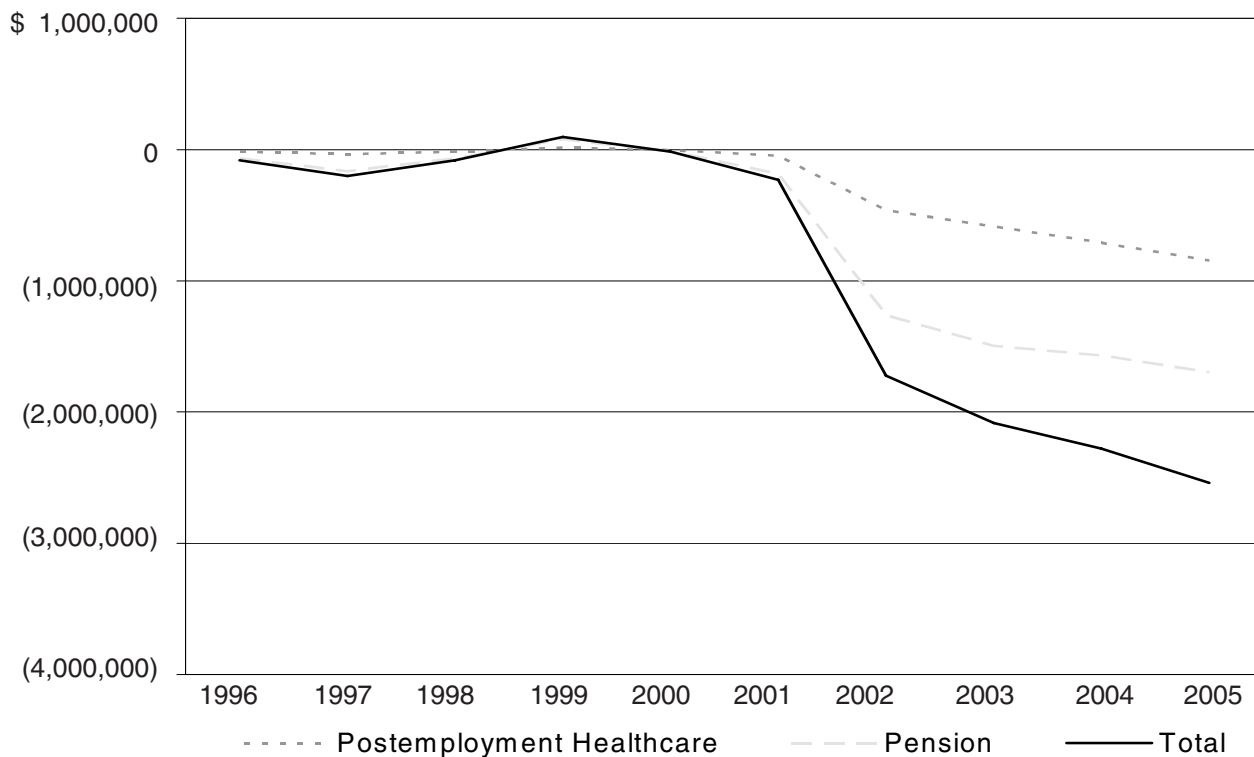
Table 3
Retirement Rates

<u>Age at Retirement</u>	<u>Retirement Rate</u>
50	.05
51	.05
52	.05
53	.05
54	.05
55	.15
56	.13
57	.10
58	.10
59	.10
60	.10
61	.10
62	.10
63	.17
64	.17
65	.50
66 & up	1.00

Teachers retiring at ages under 50 are assumed to retire immediately upon attaining 21 years of service.

Teachers' Retirement System Unfunded Liability (In thousands)				
Actuarial Valuation Year Ended June 30	Postemployment Healthcare	Pension	Total	Funded Ratio
1996	\$ (14,956)	\$ (66,725)	\$ (81,681)	97.2
1997	(35,668)	(164,357)	(200,025)	94.0
1998	(14,890)	(67,797)	(82,687)	97.7
1999	17,237	77,442	94,679	102.5
2000	(3,001)	(11,852)	(14,853)	99.6
2001	(47,740)	(183,178)	(230,918)	95.0
2002	(462,093)	(1,260,513)	(1,722,606)	68.2
2003	(587,139)	(1,496,185)	(2,083,324)	64.3
2004	(709,527)	(1,568,703)	(2,278,230)	62.8
2005	(845,674)	(1,693,934)	(2,539,608)	60.9

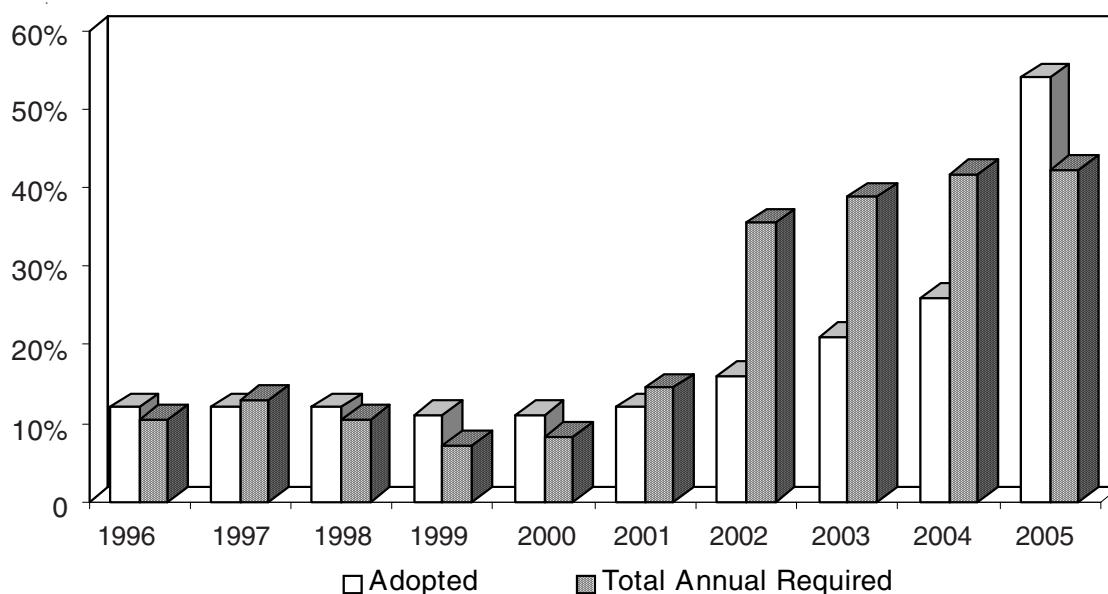
10-YEAR TREND OF UNFUNDED LIABILITY



Teachers' Retirement System Employer Contribution Rates					
	Actuarially Determined				
Year Ended June 30	Actuarial Valuation Year Ended June 30	Normal Cost ¹	Past Service	Total Annual Required	Adopted
1999	1996	8.97%	1.55%	10.52%	12.00%
2000	1997	9.21	3.79	13.00	12.00
2001	1998	8.99	1.56	10.55	12.00
2002	1999	8.88	(1.79)	7.09	11.00
2003	2000	8.02	0.27	8.29	11.00
2004	2001	10.33	4.11	14.44	12.00
2005	2002	14.76	20.81	35.57	16.00
2006	2003	14.28	24.57	38.85	21.00
2007	2004	13.76	28.02	41.78	26.00
2008	2005	12.56	29.70	42.26	54.03 ²

¹Also referred to as the consolidated rate.
Valuations are used to set contribution rates in future years.
²The ARMB recognized the fact that the Plan becomes a closed Plan on July 1, 2006, and set a rate reflecting no payroll growth.

10-YEAR COMPARISON OF EMPLOYER CONTRIBUTION RATES



Teachers' Retirement System Schedule of Active Member Valuation Data					
Valuation Date	Number	Annual Payroll (In thousands)	Annual Average Earnings	Percent Increase/ (Decrease) In Average Earnings	Number of Participating Employers
June 30, 2005	9,656	\$535,837	\$55,493	2.9%	58
June 30, 2004	9,688	522,421	53,925	0.0	58
June 30, 2003	9,873	532,630	53,948	2.7	57
June 30, 2002	9,690	509,437	52,535	3.9	57
June 30, 2001	9,815	496,188	50,544	1.8	60
June 30, 1999	9,396	466,414	49,640	(2.1)	61
June 30, 1998	9,262	469,433	50,684	(0.4)	61
June 30, 1997	9,164	466,455	50,901	1.3	61
June 30, 1996	9,259	465,182	50,241	(0.5)	61
June 30, 1995	9,452	477,205	50,487	0.6	61

Teachers' Retirement System Schedule of Benefit Recipients Added to and Removed From Rolls								
Year Ended	Added to Rolls		Removed from Rolls		Rolls - End of Year		Percent Increase in Annual Benefits	Average Annual Benefits
	No.*	Annual Benefits*	No.*	Annual Benefits*	No.	Annual Benefits		
June 30, 2005	446	\$11,243,448	121	\$13,053,612	9,020	\$265,746,150	(0.68)%	\$29,462
June 30, 2004	491	17,867,366	96	5,503,666	8,707	267,556,314	4.84	30,729
June 30, 2003	599	21,475,421	91	3,377,352	8,312	255,192,614	7.63	30,702
June 30, 2002	589	24,789,896	118	4,966,397	7,804	237,094,545	9.12	30,381
June 30, 2001	1,057	39,213,327	210	7,790,727	7,333	217,271,046	16.91	29,629
June 30, 1999	598	19,014,567	91	2,893,521	6,486	185,848,446	9.50	28,654
June 30, 1998	674	24,479,595	38	1,380,155	5,979	169,727,400	15.75	28,387
June 30, 1997	583	29,988,351 ⁽¹⁾	43	2,211,834 ⁽¹⁾	5,343	146,627,960	23.37	27,443
June 30, 1996	376	8,410,895	32	441,353	4,803	118,851,443	7.19	24,745
June 30, 1995	368	10,386,432	43	94,443	4,459	110,881,901	10.23	24,867

* Numbers are estimated, and include other internal transfers.

¹ Includes additional benefits to current retirees from a one-time retroactive ad hoc Post-Retirement Pension Adjustment.

Teachers' Retirement System Solvency Test							
Valuation Date	Aggregate Accrued Liability For:			Valuation Assets (In thousands)	Portion of Accrued Liabilities Covered by Assets		
	(1) Active Member Contributions (In thousands)	(2) Inactive Members (In thousands)	(3) Active Members (Employer- Financed Portion (In thousands)		(1)	(2)	(3)
June 30, 2005	\$589,169	\$4,694,176	\$1,215,211	\$3,958,939	100%	71.8%	0.0%
June 30, 2004 ⁽²⁾	569,435	4,423,036	1,131,129	3,845,370	100	74.1	0.0
June 30, 2003	548,947	4,105,445	1,181,217	3,752,285	100	78.0	0.0
June 30, 2002 ⁽¹⁾⁽²⁾⁽³⁾	523,142	3,755,882	1,132,618	3,689,036	100	84.3	0.0
June 30, 2001	533,752	3,213,431	855,964	4,372,229	100	100	73.0
June 30, 2000 ⁽¹⁾⁽²⁾⁽³⁾	490,176	2,872,250	836,442	4,184,015	100	100	98.2
June 30, 1999	469,068	2,571,345	680,541	3,815,633	100	100	100.0
June 30, 1998	449,383	2,344,263	735,111	3,446,070	100	100	88.8
June 30, 1997	483,735	2,095,843	780,491	3,120,044	100	100	69.2
June 30, 1996 ⁽²⁾	451,249	1,689,636	799,552	2,858,756	100	100	89.8
⁽¹⁾ Change in Asset Valuation Method. ⁽²⁾ Change of Assumptions ⁽³⁾ Change in Methods.							

Teachers' Retirement System Analysis of Financial Experience					
Change in Employer Contribution Rate Due to Gains and Losses in Accrued Liabilities During the Last Five Fiscal Years Resulting From Differences Between Assumed Experience and Actual Experience					
Type of Gain or Loss	Change in Employer Contribution Rate During Fiscal Year				
	2005	2004	2003	2002	2001
Health Experience	1.47%	- %	- %	3.85%	- %
Salary Experience	(0.26)	0.54	0.10	(0.11)	(1.68)
Investment Experience	(0.02)	0.06	0.43	15.03	1.35
Demographic Experience	(2.10)	(0.85)	1.35	4.21	2.66
Contribution Shortfall	<u>1.42</u>	<u>1.24</u>	<u>1.40</u>	<u>-</u>	<u>-</u>
(Gain) or Loss During Year from Experience	(0.51)	0.99	3.28	22.98	2.33
Non-recurring changes					
Asset Valuation Method	-	-	-	0.03	-
Past Service Amortization Change	-	-	-	(9.08)	-
Assumption Changes	-	1.94	-	6.84	-
System Benefit Changes	-	-	-	-	0.17
Administrative System Changes	-	-	-	-	3.49
Ad hoc PRPA	-	-	-	0.36	0.16
Change Due to Revaluation of Plan Liability as of June 30, 2004	<u>(0.03)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Composite (Gain) Loss During Year	0.48	2.93	3.28	21.13	6.15
Beginning Total Employer Contribution Rate	<u>41.78</u>	<u>38.85</u>	<u>35.57</u>	<u>14.44</u>	<u>8.29</u>
Ending Total Employer Contribution Rate	<u>42.26%</u>	<u>41.78%</u>	<u>38.85%</u>	<u>35.57%</u>	<u>14.44%</u>
Board Adopted Employer Contribution Rate	<u>54.03%</u>	<u>26.00%</u>	<u>21.00%</u>	<u>16.00%</u>	<u>12.00%</u>
Fiscal Year above rate is applied	FY08	FY07	FY06	FY05	FY04

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

(1) Effective Date

July 1, 1955, with amendments through July 1, 2005. Chapter 97, 1990 Session Laws of Alaska, created a two-tier retirement system. Members who were first hired under the TRS before July 1, 1990, are eligible for different benefits than members hired after June 30, 1990.

(2) Administration of Plan

The Commissioner of Administration is responsible for administering the System. The Attorney General represents the system in legal proceedings.

For the Fiscal Year ending June 30, 2005, the Teachers' Retirement Board prescribes policies and adopted regulations and performs other activities necessary to carry out the provisions of the system. The Alaska State Pension Investment Board, Department of Revenue, Treasury Division, is responsible for investing TRS funds.

Subsequent to the date of this valuation, Senate Bill 141, enacted as Chapter 9, 2005 Session laws of Alaska, replaced the Teachers' Retirement Board and the Alaska State Pension Investment Board with the Alaska Retirement Management Board.

(3) Employers Included

Currently, there are 58 employers participating in the TRS, including the State of Alaska and 53 school districts and other eligible organizations.

(4) Membership

Membership in the Alaska TRS is mandatory for the following employees:

- certificated full-time and part-time elementary and secondary teachers, certificated school nurses, and certificated employees in positions requiring teaching certificates;

- positions requiring a teaching certificate as a condition of employment in the Department of Education and Early Development and the Department of Labor and Workforce Development;
- University of Alaska full-time and part-time teachers, and full-time administrative employees in positions requiring academic standing if approved by the TRS administrator;
- certain full-time or part-time teachers of Alaska Native language or culture who have elected to be covered under the TRS;
- members on approved sabbatical leave under AS 14.20.310;
- certain State legislators who have elected to be covered under the TRS; and
- a teacher who has filed for workers' compensation benefits due to an on the job assault and who, as a result of the physical injury, is placed on leave without pay.

Employees participating in the University of Alaska's Optional Retirement Plan or other retirement plans funded by the State are not covered by the TRS.

Employees who work half-time in the TRS and PERS simultaneously are eligible for half-time TRS and PERS credit.

(5) Credited Service

TRS members receive a year of membership credit if they work a minimum of 172 days during the school year (July 1 through June 30 of the following year). Fractional credit is determined based on the number of days worked. Part-time members who work at least 50% of full time receive membership credit for each day in proportion to full-time service.

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

Credit is granted for all Alaskan public school service.

Members may claim other types of service, including:

- Outside teaching service in out-of-state schools or Alaska private schools (not more than ten years may be claimed);
- Military service (not more than five years of military service or ten years of combined outside and military service may be claimed);
- Alaska Bureau of Indian Affairs (BIA) service;
- Retroactive Alaskan service that was not creditable at the time it occurred, but later became creditable because of legislative change;
- Unused sick leave credit after members retire; and
- Leave of absence without pay.

Except for retroactive Alaska service that occurred before July 1, 1955, and unused sick leave, contributions are required for all claimed service.

Members receiving TRS disability benefits continue to earn TRS credit while disabled.

Members whose survivors are receiving occupational death benefits continue to earn TRS credit while occupational survivor benefits are being paid.

(6) Employer Contributions

TRS employers contribute the amounts required, in addition to employees' contributions, to fund the benefits of the system.

The consolidated rate is a uniform rate for all participating employers (less the value of members' contributions).

The past service rate is a uniform rate for all participating employers to amortize the unfunded past service liability with payments that are level as a percentage of pay over fixed 25-year periods.

Employer rates cannot be less than the consolidated normal cost rate.

(7) Member Contributions

Mandatory Contributions: Members are required to contribute 8.65% of their base salaries. Members' contributions are deducted from gross salaries before federal income taxes are withheld.

Contributions for Claimed Service: Member contributions are also required for most of the claimed service described in (4) above.

1% Supplemental Contributions: Members who joined the system before July 1, 1982, and elected to participate in the supplemental contributions provision, are required to contribute an additional 1% of their salaries. Supplemental contributions are deducted from gross salaries before federal income taxes are withheld. Under the supplemental provision, an eligible spouse or dependent child will receive a survivor's allowance or spouse's pension if the member dies [see (12) below].

Interest: Members' contributions earn 4.5% interest, compounded annually on June 30.

Refund of Contributions: Terminated members may receive refunds of their member contribution accounts, which includes their mandatory contributions, indebtedness payments, and interest earned.

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

Terminated members' accounts may be attached to satisfy claims under Alaska Statute 09.38.065, federal income tax levies, and valid Qualified Domestic Relations Orders.

Reinstatement of Contributions: Refunded accounts and the corresponding TRS service may be reinstated upon reemployment in the TRS prior to July 1, 2010. Accounts attached to satisfy claims under Alaska Statute 09.38.065 or a federal tax levy may be reinstated at any time. Interest accrues on refunds until paid in full or members retire.

(8) Retirement Benefits

Eligibility:

(a) Members, including deferred vested members, are eligible for normal retirement at age 60¹, or early retirement at age 55, if they have at least:

- (i) eight years of paid-up membership service;
- (ii) 15 years of paid-up creditable service, the last five years of which are membership service, and they were first hired under the TRS before July 1, 1975;
- (iii) five years of paid-up membership service and three years of paid-up Alaska Bureau of Indian Affairs service;
- (iv) 12 years of combined part-time and full-time paid-up membership service;
- (v) two years of paid-up membership service if they are vested in the PERS; or
- (vi) one year of paid-up membership service if they are retired from the PERS.

(b) Members may retire at any age when they have:

- (i) 25 years of paid-up creditable service, the last five years of which are membership service;
- (ii) 20 years of paid-up membership service;
- (iii) 20 years of combined paid-up membership and Alaska Bureau of Indian Affairs service, the last five years of which are membership service; or
- (iv) 20 years of combined paid-up part-time and full-time membership service.

Benefit Type: Lifetime benefits are paid to members. Eligible members may receive normal, unreduced benefits when they (1) reach normal retirement age and complete the service required; or (2) satisfy the minimum service requirements to retire at any age under (b) above. Members may receive early, actuarially reduced benefits when they reach early retirement age and complete the service required.

Members may select joint and survivor options. Under those options and early retirement, benefits are actuarially adjusted so that members receive the actuarial equivalents of their normal benefit amounts.

Benefit Calculation: Retirement benefits are calculated by multiplying the average base salary (ABS) times the total TRS service times the percentage multiplier. The ABS is determined by averaging the salaries earned during the three highest school years. Members must earn at least 115 days of credit in a school year to include it in the ABS calculation. The TRS pays a minimum benefit of \$25.00 per month for each year of service when the calculated benefit is less.

¹ Members participating before July 1, 1990, are eligible for normal retirement at age 55 or early retirement at age 50.

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

The percentage multipliers are 2% for the first 20 years and 2.5% for all remaining service. Service before July 1, 1990, is calculated at 2%.

Indebtedness: Members who terminate and refund their TRS contributions are not eligible to retire unless they return to TRS employment and pay back their refunds, plus interest, or accrue additional service which qualifies them for retirement. TRS refunds must be paid in full if the corresponding service is to count toward the minimum service requirements for retirement. Refunded TRS service is included in total service for the purpose of calculating retirement benefits. However, when refunds are not completely paid before retirement, benefits are actuarially reduced for life.

(9) Reemployment of Retired Members

Retirees who return to work in a permanent full-time or part-time TRS position after a Normal Retirement have two options available, the Standard Option or the Waiver Option.

Under the Standard Option, retirement and retiree healthcare benefits are suspended while retired members are reemployed under the TRS. During reemployment, members earn additional TRS service and contributions are withheld from their wages.

If an Alaska school district has established that there is a shortage of teachers in a particular discipline or specialty and has passed a resolution to that effect, a retiree returning to work in a permanent full-time or part-time TRS position with that school district may exercise the Waiver Option. The Waiver Option allows a retiree who retired under a Normal Retirement to reemploy with a TRS employer and continue to receive a retirement benefit by signing a waiver of participation in the TRS. The Waiver Option became effective July 1, 2005 and applies to reemployment periods after

that date. The Waiver Option is no longer available after June 30, 2009.

The Waiver Option is not available to members who retired early or under the Retirement Incentive Program (RIP).

Members retired under the RIP who return to employment under the TRS, PERS, Judicial Retirement System (JRS) or the University of Alaska's Optional Retirement Plan will:

- (a) forfeit the three years of incentive credits that they received;
- (b) owe the TRS 110% of the benefits that they received under the RIP, which may include costs for health insurance, excluding amounts that they paid to participate; and
- (c) be charged 7% interest from the date that they are reemployed until their indebtedness is paid in full or they retire again. If the indebtedness is not completely paid, future benefits will be actuarially reduced for life.

Employers make contributions to the unfunded liability of the plan on behalf of rehired retired members at the rate the employer is making contributions to the unfunded liability of the plan for other members.

(10) Postemployment Healthcare Benefits

When pension benefits begin, major medical benefits are provided by the TRS to (1) all employees first hired before July 1, 1990, and (2) members who have twenty-five years of membership service, are disabled or age sixty or older, regardless of their initial hire dates. Employees first hired after June 30, 1990, may receive major medical benefits prior to age sixty by paying premiums.

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

(11) Disability Benefits

Monthly disability benefits are paid to permanently disabled members until they die, recover, or become eligible for normal retirement. To be eligible, members must have at least five years of paid-up membership service.

Disability benefits are equal to 50% of the member's base salary at the time of disability. The benefit is increased by 10% of the base salary for each minor child, up to a maximum of 40%. Members continue to earn TRS service until eligible for normal retirement.

Members are appointed to normal retirement on the first of the month after they become eligible.

(12) Death Benefits

Monthly death benefits may be paid to a spouse or dependent children upon the death of a member. If monthly benefits are not payable under the supplemental contributions provision or occupational and nonoccupational death provisions, the designated beneficiary receives the lump-sum benefit described below.

Occupational Death: When an active member dies from occupational causes, a monthly survivor's pension may be paid to the spouse, unless benefits are payable under the supplemental contributions provision (below). The pension equals 40% of the member's base salary on the date of death or disability, if earlier. If there is no spouse, the pension may be paid to the member's dependent children. On the member's normal retirement date, the benefit converts to a normal retirement benefit. The normal benefit is based on the member's average base salary on the date of death and service, including service accumulated from the date of the member's death to the normal retirement date.

Nonoccupational Death: When a vested member dies from nonoccupational causes, the surviving spouse may elect to receive a monthly 50% joint and survivor benefit or a lump-sum benefit, unless benefits are payable under the supplemental contributions provision (below). The monthly benefit is calculated on the member's average base salary and TRS service accrued at the time of death.

Lump-Sum Benefit: Upon the death of an active member who has less than one year of service or an inactive member who is not vested, the designated beneficiary receives the member's contribution account, which includes mandatory contributions, indebtedness payments, and interest earned. Any supplemental contributions will also be refunded. If the member has more than one year of TRS service, the beneficiary also receives \$1,000 and \$100 for each year of TRS service, up to a maximum of \$3,000. An additional \$500 may be payable if the member is survived by dependent children.

Supplemental Contributions Provision: Members are eligible for supplemental coverage if they joined the TRS before July 1, 1982, elected to participate in the supplemental provision, and made the required contributions. A survivor's allowance or spouse's pension (below) may be payable if the member made supplemental contributions for at least one year and dies while in membership service or while disabled under the TRS. In addition, the allowance and pension may be payable if the member dies while retired or in deferred vested status if supplemental contributions were made for at least five years.

- (a) Survivor's Allowance: If the member is survived by dependent children, the surviving spouse and dependent children are entitled to a survivor's allowance. The allowance for the spouse is equal to 35% of the member's base

STATE OF ALASKA TEACHERS' RETIREMENT SYSTEM

Summary of Plan Provisions

salary at the time of death or disability, plus 10% for each dependent child up to a maximum of 40%. The allowance terminates and a spouse's pension becomes payable when there is no longer an eligible dependent child.

- (b) Spouse's Pension: The spouse's pension is equal to 50% of the retirement benefit that the deceased member was receiving or would have received if retired at the time of death. The spouse's pension begins on the first of the month after the member's death or termination of the survivor's allowance.

Death After Retirement: If a joint and survivor option was selected at retirement, the eligible spouse receives continuing, lifetime monthly benefits after the member dies. A survivor's allowance or spouse's pension may be payable if the member participated in the supplemental contributions provision. If a joint and survivor option was not selected and benefits are not payable under the supplemental contributions provision, the designated beneficiary receives the member's contribution account, less any benefits already paid and the member's last benefit check.

(13) Post Retirement Pension Adjustments

Post retirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the consumer price index (CPI) increases during the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, times:

- (a) 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least age 65 or on TRS disability; or

- (b) 50% of the CPI increase in the preceding calendar year or 6%, whichever is less, if the recipient is at least age 60, or under age 60 if the recipient has been receiving benefits for at least eight years.

Ad hoc PRPAs, up to a maximum of 4%, may be granted to eligible recipients who were first hired before July 1, 1990, if the CPI increases and the funding ratio is at least 105%.

In a year where an Ad Hoc PRPA is granted, eligible recipients will receive the higher of the two calculations.

(14) Alaska Cost of Living Allowance

Eligible benefit recipients who reside in Alaska receive an Alaska cost of living allowance (COLA) equal to 10% of their base benefits. The following benefit recipients are eligible:

- (a) members who were first hired under the TRS before July 1, 1990, and their survivors;
- (b) members who were first hired under the TRS after June 30, 1990, and their survivors if they are at least age 65; and
- (c) all disabled members.